THE MODERATING ROLE OF GOVERNMENT SUPPORT ON THE EFFECT OF SME'S INTERNAL FACTORS ON EXPORT PERFORMANCE

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by

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ABSTRAK

Industri pemprosesan makanan dianggap sebagai perniagaan yang menambah nilai dalam ekonomi Malaysia. Penyelidikan ini menyediakan rangka kerja teoritis yang baru, untuk menerangkan hubungan antara ciri-ciri firma, ciri-ciri pengurusan, produktiviti buruh, inovasi dan kesan moderator sokongan kerajaan pada prestasi eksport PKS (Perusahaan Kecil and Sederhana) pemprosesan makanan di Malaysia. Dengan konsep baru ini, ia dapat membantu firma menentukan faktor kejayaan dalam prestasi exsport dan keberkesanan sokongan kerajaan terhadap PKS pemprosesan makanan. Hasilnya, prestasi eksport PKS pemprosesan makanan menunjukkan hubungan positif yang signifikan dalam ciri-ciri firma, ciri-ciri pengurusan, produktiviti buruh dan inovasi. Sokongan kerajaan sebagai kesan moderator, telah menunjukkan hubungan positif antara ciri-ciri pengurusan, produktiviti buruh dan prestasi eksport. Sokongan kerajaan memberi kesan penting dalam mengukuhkan hubungan secara positif, antara prestasi eksport PKS pemprosesan makanan dengan ciri-ciri pengurusan dan produktiviti buruh. Sokongan kerajaan melalui agensi kerajaan, telah menyediakan platform dan sumber yang mencukupi untuk memperluaskan rangkaian, kemahiran pengurusan dan kemahiran buruh. Hasil kajian juga menunjukkan sokongan kerajaan tidak memberikan pengaruh yang positif dalam ciri-ciri firma dan inovasi terhadap prestasi eksport. Tumpuan kerajaan terhadap kaedah dan usaha dalam meningkatkan ciri-ciri perusahaan dan inovasi perlu dipertingkatkan. Model

penyelidikan ini diuji dengan menggunakan teknik Partial Least Squared (PLS). Kaedah kuantitatif dipilih untuk melaksanakan kajian ini.

THE MODERATING ROLE OF GOVERNMENT SUPPORT ON THE EFFECT OF SME'S INTERNAL FACTORS ON EXPORT PERFORMANCE

ABSTRACT

Food processing industry is considered as a value-added business to the Malaysian economy. This research address theoretical framework to describe the relationship between firm characteristics, management characteristics, labour productivity, innovation and moderating effect of government support for food processing SMEs export performance. The new conceptual framework, its help firms to determine the factors that contribute to the success in export performance and effectiveness of government support to food processing SMEs. Results indicate that food processing firms' export performance positively related to firm characteristics, management characteristic, labour productivity and innovation. With the moderating effect of government support, shows a significant positive relationship between management characteristic and labour productivity towards export performance. Government support is important to the strengthen food processing SMEs' export performance, by helping to improve the firms' management characteristics and labour productivity. The government support performs by government agencies create a platform and provide sufficient source to expand networking, management skills and labour skills. Hypothesis result shows government support not having a positive moderating effect on firm characteristics and innovation towards export performance, therefore effort from the government in providing effective support to firm characteristic and innovation is required. The

research model is tested using the Partial Least Squared (PLS) technique. The quantitative method was employed in completing this thesis.

CHAPTER 1

INTRODUCTION

Food is one of the most important necessities for human survival and sustainability. Without sufficient food resources, human will face a food crisis. In future, food processing and farming industries are foreseen to be one of the world most important industries (Texas A&M AgriLife Communications, 2014) and also considered as emerging sector across the world (Durga & Tribuhuvan, 2015). Malaysia is a country which is rich in natural resources, with a tropical climate and free from major natural calamity. These factors have given Malaysia an advantage in the grow of agricultural activities. The food processing industry is one of the mainstream businesses for Malaysian SMEs (Hussain & Idris, 2010). Agri-products are the main source of raw materials and the backbone for the food processing industry.

Food processing industry can be divided into two categories. The first category is the primary processes food which directly consumes argi-product to create a brand new product; example sugarcane to sugar, packed milk, flour and rice (Durga & Tribuhuvan, 2015; Tell et al., 2016). Second, the value-added processed food which consumed primary processed food products such as flour, cereal, rice and others to produce brand new food products, commonly known as food processing industry, which producing tin food, snacks, candy, noodles and others (Durga & Tribuhuvan, 2015).

The demands for foods supply keep increasing to sustain food security (Elferink & Schierhorn, 2016), for certain countries importing food supply is the only way to ensure the stability of food security. This opens up a great opportunity for food exporter. Harvested crops, livestock or fisheries will easily rot or spoil in a short period of time. Raw material cannot be stored long-term without being processed. Unpredictable natural disasters, such as major flood will cause massive destruction of crops and livestock. Food security highlighted the importance of the food processing company, as the processing of the processed food is able to extend the lifespan of the food. By extending the food lifespan, massive waste of crops and livestock could be avoided. Exporting processed food to another country will not prevent a shortage of certain food product, but it can also increase the value when an oversupply from a bumper harvest can be maximised.

Sustaining and increasing export performance can help to reduce the country's reliance on import food and improve food security. Currently, Malaysia still highly dependent on imported food. Improving the food processing firms' export performance will help to increase the supply of finished goods, which will subsequently reduce the reliance on imported food and it will have positive economic effects. Increasing the capability of Malaysian food processing SMEs is a way to encourage the growth of Malaysian economy. The scope of this study comes with a framework that explores the factors which contribute toward the growth and performance of the export market for Malaysian food processing SMEs.

1.1 Research Background

The government has set a high expectation to achieve a high-income nation status. Hence, the Malaysian economy needs to achieve a higher level of growth to meet expectation. SME is the key sector that is able to contribute to the economic growth and the food processing SMEs have opportunities to perform better (Ahmed, 2012). There was about 5% growth in the year 2015 supported by a strong domestic demand, particularly private consumptions and the investment activities still have the space to improve; this is compared to the year 2014 where Malaysia experienced 6% of growth (Malaysia SME Corp, 2015, 2016). The decreased demands from the export market showed a negative impact on the net export value and soft grow on the Gross Domestic Product (GDP). In the year 2016, Malaysia was expected to generate a moderate growth of 4.0 - 4.5%, sustained by domestic (Malaysia SME Corp, 2016). In April 2017, MATRADE has reported that export contribution of SMEs still low currently, SMEs contribute nearly 17.8% of overall total Malaysia export value. MATRADE setting target to raise the export contribution to 23% in the year 2020 (MATRADE, 2017), SMEs is crucial for Malaysian economy as Malaysian SMEs contribute to nearly 36% of Malaysia's Gross Domestic Products (GDP) and 65% of country's employment.

A slow growth and low export contribution indicator for SMEs' nett export value has initiated the move to define the moderating factor that strengthens the positive impact on independent variables and SMEs' export performance growth. In

the year 2016, SMEs contribute 18.6% from the overall export value, manufacturing sector contributes 8.8% and agriculture sector contribute 0.3%. The moderating factor is the factor that directly affects the strength of the relationship between the independent variables and the firm's export performance (Baron & Kenny, 1986). The pattern of food processing SMEs' growth in the foreign market remains unclear and is currently being discovered.

Internal and external environment trend incessantly changes and currency fluctuated significantly from the year 2015 to the 1st quarter of the year 2016. Furthermore, with the implementation of the Goods and Services Tax (GST), caused more ambiguous circumstances. GST in fact, able to strengthen the fiscal position while it ensured continues support for domestic growth and protecting the well-being of society. In the new era, SMEs face challenges from internal and external factors to survive and adapt to the new setting and policies. By observing and analysing firm's reactions and decisions in overcoming these changes, it will help us understand the growth pattern of a company. This research generates new ideas to a conceptual framework, which helps improve on SMEs' growth in the export market for long term.

The annual report of Malaysia SME 2015/16 indicated that government has implemented few policies and allocated funds to assist Malaysian SMEs. Each budget allocated by the government to assist SMEs were aimed at improving the SMEs' position in the export market (Malaysia SME Corp, 2015, 2016). For example, the

government provided technical knowledge training to improve labour productivity for SMEs. The expansion of the broadband capacity for the SMEs was also another gain for the companies, especially for online businesses. The acceleration of the development of entrepreneurship helped the SMEs to become more competitive in order to survive in the export market (Economic Planning Unit, 2015).

According to past research and existing statistics, the food industry is one of the important socioeconomic in Malaysia. Food processing sector contributes major portion among SMEs. Processed food products are exported to more than 80 countries, with an annual export value of approximately US$1.7 billion in the year 2010, contribute two-thirds of the total Malaysian food exports (Syed, Mohd Fauzi, Zizah, & Ahmad Khairy, 2011). Past research related to food processing SMEs' found that this industry facing the barrier of growth from internal and external factors, however as summary financial and managerial resource are the key factors that created barriers for food processing to growth in term of export and overall performance.

SME Corp report year 2016/17 conducted a survey of all registered SMEs under SME Corp to understand the constraints of SMEs in export activities. Figure 1.1, illustrates 42.6% of SMEs responded they are facing inadequate information on the targeted market. There are 33.8% of SMEs responded they experience higher operating cost. Follow by 30.6% of SMEs facing inadequate knowledge on global demand, 28.6% insufficient financial resources, 27.9% lacking information of

competitors and 27.7% of SMEs facing insufficient knowledge on the export procedure.

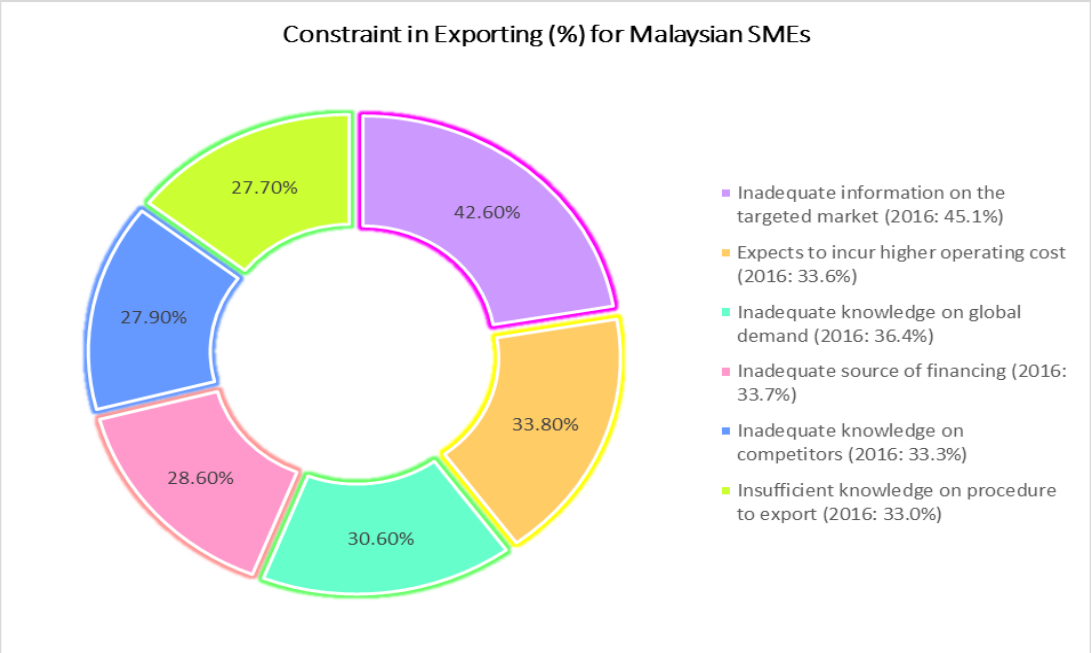

Figure 1.1: Constraint in SMEs Exporting (%)
Source: SME Corp. Malaysia Annual Report, 2017 (Q1 2017 SME Survey)

1.1.1 Profile of Key Sector SMEs in Malaysia

Table 1.1, below illustrates the total establishment of SMEs by sectors. The services sector is the largest number of SMEs establishment, followed by the manufacturing sector and agricultural sector. The services sector SMEs contribute 90% of the total number of SMEs, manufacturing sector owned 5.9%, and agricultural sector only owned 1.0%. Table 1.2 shows, the terms of total employment, manufacturing sector contributes most employment opportunities for local because with 5.9% of SMEs in the manufacturing sector has contributed 19.1% of employment (Malaysia SME Corp, 2015),

Table 1.1: *Total Establishment and number of SMEs by sector in Malaysia*

Sector	Total Establishments (a)	Total SMEs (b)	Percentage (%) of SMEs over Total Establishments (b)/(a)*100	Percentage of total SMEs by sector
Services	591,883	580,985	98.1	90.0%
Manufacturing	39,669	37,861	95.4	5.9%
Agriculture	8,829	6,708	76.0	1.0%
Mining & Quarrying	418	299	71.5	0.1%
Construction	22,140	19,283	87.1	3%
Overall Total	**662,939**	**645,136**	**97.3**	**100%**

Source: Department of Statistics, Malaysia and SME Corp. Malaysia Annual Report 2016

Table 1.2: *Distribution of Total Employment by Size and Sector*

Sector	Micro	Small	Medium	Total Employment	Percentage of total Employment by sector
Services	1,219,801	1,002,186	388,386	2,610,373	71.2%
Manufacturing	67,891	360,299	270,522	698,713	19.0%
Agriculture	13,718	24,864	40,195	78,777	2.1%
Mining & Quarrying	274	1,454	4,037	5,765	0.2%
Construction	65,153	89,277	121,201	275,631	7.5%
Overall Status	**1,366,838**	**1,478,080**	**824,341**	**3,669,259**	**100%**

Source: Department of Statistics, Malaysia and SME Corp. Malaysia Annual Report 2016

Table 1.3: *GDP of Economic Activity at Constant 2010 prices in Percentages share*

	Percentages Share to GDP by year					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Services	51.2	52.0	52.5	53.2	53.5	53.5
Manufacturing	23.4	23.5	23.2	22.9	23.0	23.0
Agriculture	**10.1**	**10.2**	**9.8**	**9.5**	**9.2**	**8.9**
Construction	3.4	3.4	3.8	4.0	4.3	4.4
Mining & Quarrying	10.9	9.9	9.5	9.2	9.0	9.0
Plus: import duties	0.9	1.0	1.1	1.1	1.1	1.3
Total	**100**	**100**	**100**	**100**	**100**	**100**

Source: Department of Statistics, under "Selected Agricultural Indicators 2015"

Table 1.3 illustrates that the service sector is one of the major contributors to economic growth, followed by manufacturing, agriculture and construction. Manufacturing and construction are sectors that resulted from the continuing growth and expansion. The agriculture sector is the third contributor in terms of total GDP, but the increment of the growth rate in agriculture remains low. In the year 2015, the rank of agriculture GDP slightly dropped and causing it to be the fourth major contributor economic sector within Malaysian SME.

The data shows in the Annual report of Malaysian SMEs 2015/16, the main contributor of GDP, services sectors that owned the share of 53.5% from the total GDP of SMEs in Malaysia (Malaysia SME Corp, 2015). Followed by the manufacturing sector which contributes 23% and 8.9% for the agriculture sector in term of total GDP. But as refer to the total number of SMEs in table 1.1, services sector owned the most number of firms, 90% of total number Malaysian SMEs involved in the services sector, and only 5.9% of SMEs are the manufacturer. This

shown that manufacturing sector able to bring greater growth on Malaysian GDP and manufacturing sector much active in the export market as compare to other sectors (Malaysia SME Corp, 2015).

1.1.2 GDP of Key Sector SMEs in Malaysia

As the result reflect on table 1.4, construction contributing the more change and increase as compared to other sectors. Except for Agriculture, all sectors also show a significant growth over the first half of 2016. Overall all sectors are able to achieve the target of 4.0-4.5% of growth (Malaysia SME Corp, 2015). The growth for agricultural sector for the year 2016 is -6.0% of GDP growth as compared to the year 2015. Table 1.5 illustrates the growth of GDP share within the year 2010 and 2015 is 0.0%. The statistical data has proven that the agriculture sector is not performing well in comparison to other sections.

Table 1.4: *The Real GDP by Key Economic Activity*

	Annual Growth (%)			
	2014	**2015**	**1H 2016p**	**2016[f]**
Agriculture	**2.1**	**1.2**	**-6.0**	**-0.3**
Mining & quarrying	3.5	4.7	1.4	3.5
Manufacturing	6.2	4.9	4.3	4.1
Construction	11.7	8.2	8.4	7.9
Services	6.6	5.1	5.4	4.4
Real GDP	**6.0**	**5..0**	**4.1**	**4.0~4.5**

p: preliminary / f: forecast based on BNM Annual Report 2015
Source: Department of Statistics, Malaysia & SME Corp. Malaysia Annual Report, 2016

Table 1.5: *SME GDP share by Key Economic Activity (constant 2010 prices)*

	SME Contribution to GDP			SME GDP Growth
	2010 (% share)	**2015 (% share)**	**Increase/decrease in share**	**CAGR[1] 2011-2014**
Overall	**32.2**	**36.3**	**+4.1**	**6.7**
Agriculture	4.3	4.3	0.0	2.9
Services	19.6	21.4	+1.8	7.1
Mining & quarrying	0.0	0.2	+0.15	9.3
Construction	0.9	2.1	+1.2	10.9
Manufacturing	7.2	7.9	+0.7	6.7

Source: Department of Statistics, Malaysia & SME Corp. Malaysia Annual Report, 2016

1.1.3 The Relationship between Food Processing Industry, Agriculture Sector and Manufacturing Sector

The growth of the agriculture sector is decreasing, but the agriculture sector is still one of the major contributors to the food processing industry. The agriculture sector feeds one of the most valuable industries in the manufacturing sector, which is the food processing industry. Hence, the decline of the agriculture sector will not bring a positive effect to the food processing industry, and it will be the same if the situation is reversed. Bearing in mind the close connection between the agriculture sector and the food industry, conducting this research to find possible solutions to increase the productivity of the food processing industry will have a direct impact on the growth of the agriculture sector.

It can be deduced from table 1.4 to table 1.5 that even though the agriculture sector does not perform outstanding with a zero percent growth rate, the agriculture

sector is still the third major contributors in term of Malaysia's GDP. According to (Seung-Yong, 2010), the agriculture sector feeds the manufacturing sector, especially the food and beverage industry because there are linkages between the food processing industry and agriculture sector. Focusing on the food processing industry will eventually help the agriculture sector to grow in parallel.

The growth of the food processing industry will positively influence the growth of the agriculture sector. (Murthy & Dasaraju, 2012) also, agree that the food processing company is an industry that is interrelated with agriculture and manufacturing sector. The food processing company can be categorized under rice milling, sugar, canned food and various other types of food processing. Essentially, the food processing companies are companies that consume raw agriculture material and processed them into new food products (Murthy & Dasaraju, 2012).

Various developed countries have highlighted the hidden risk of reflectance in developing the agriculture sector (Omidvar, 2006). Malaysia should also be aware since it has yet to achieve encouraging development in the agriculture sector. Table 1.1 shows only 1.0% of the SMEs in Malaysia are involved in the agriculture sector. Table 1.6 illustrates that the distribution of SMEs in the agriculture sector according to sizes and sub-sectors; agriculture can be divided into four main sub-sectors such as crops, livestock, fisheries and forestry. Table 1.7 shows that most of these SMEs are small or macro size firms. Microenterprises are small in scale, not well established, and not capable enough to increase innovation, productivity and financial investment,

and 78.6% of the micro-enterprises in the manufacturing sector are reported to face an increase in the operation cost (Malaysia SME Corp, 2016).

Table 1.6: *Distribution of SMEs in Agriculture Sector by Sub-Sector and Size*

Sub Sector	**Micro**	**Small**	**Medium**	**Total SMEs**
Crops	2,678	1,413	634	4,725
Livestock	613	179	108	900
Fisheries	452	261	68	781
Forestry and Logging	32	88	182	302
Total	**3,775**	**1,941**	**992**	**6,708**

Source: Department of Statistics, Malaysia & SME Corp. Malaysia Annual Report, 2016

In table 1.7 illustrates, the total number of SMEs in the manufacturing sector. The food and beverage product is a sub-sector under the manufacturing sector and the second highest in terms of the total number of SMEs among all sub-sectors. A total number of 6,016 SMEs or 15.9% are from the food and beverage industry. The majority of the firms are micro and small-sized firms. The financial investment for development and innovation is believed to be slightly low and indirectly causing low productivity and managerial capabilities. The total number of SMEs under agriculture (6,708 SMEs) and manufacturing sub-sector; F&B products (6,016 SMEs) are nearly equal, but the contribution in terms of GDP, employment opportunities and export volume are different.

Table 1.7: *Distribution of SMEs in Manufacturing Sector by Sub-Sector and Size*

Sub Sector	**Micro**	**Small**	**Medium**	**Total SMEs**
Textiles & Wearing Apparel	9,123	872	52	10,047
F&B Products	3,278	2,233	505	6,016
Fabricated Metal Products	2,070	1,698	190	3,958
Printing & Reproduction of Recorded Media	1,717	1,145	56	2,918
Machinery & Equipment	841	1,178	97	2,116
Furniture	886	847	110	1,843
Rubber & Plastics Products	322	1,126	308	1,756
Wood & Wood Products	499	791	157	1,448
Non-Metallic Mineral Products	484	758	131	1,373
Basic Metal	431	543	109	1,083
E&E Products	231	639	198	1,068
Chemicals & Chemicals Products	271	534	156	961
Paper & Paper Products	283	442	103	828
Motor Vehicles, Trailers & Semi-trailers and other transport equipment	242	440	77	759
Leather & Related Products	219	151	6	376
Basic Pharmaceutical Products & Pharmaceutical Preparations	60	115	17	192
Coke & refined Petroleum Products	19	39	5	63
Tobacco Products	30	27	3	60
Others	613	356	27	996
Totals	**21,619**	**13,934**	**2,308**	**37,861**

Source: Department of Statistics, Malaysia & SME Corp. Malaysia Annual Report, 2016

The food and beverage industry is one of the most value added industry within the manufacturing sector. It contributes 16% from total manufacturing SMEs, but the annual growth percentage for the food and beverage industry is decreasing compared to the year 2014.

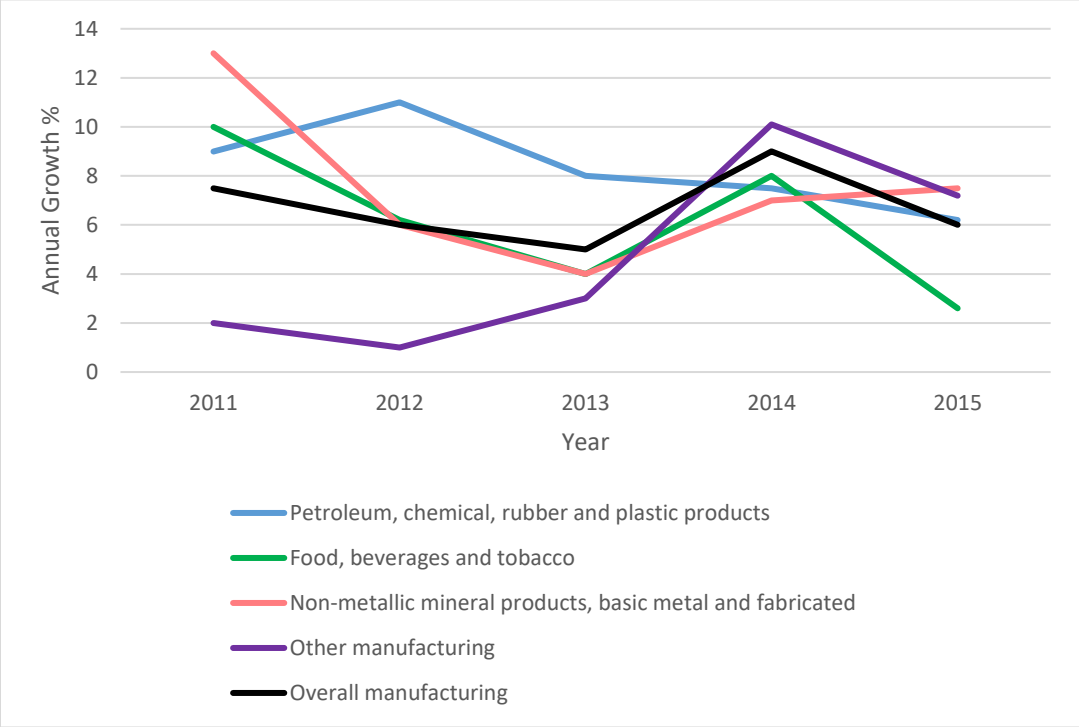

Figure 1.2: SME Value-added Growth of Sub-sectors in the Manufacturing Sector
Source: Department of Statistics, Malaysia & SME Corp. Malaysia Annual Report, 2016

As illustrates in figure 1.2, the growth of food, beverages and tobacco sub-sectors showing a drop of annual growth as compared to the year 2014. The annual growth percentages as compare with other sub-sectors are the lowest with a 2.2% annual growth in the year 2015, also the lowest annual growth as compare to the previous year. Figure 1.3 shown food, beverage and tobacco are one of the value-added SME in the manufacturing sector.

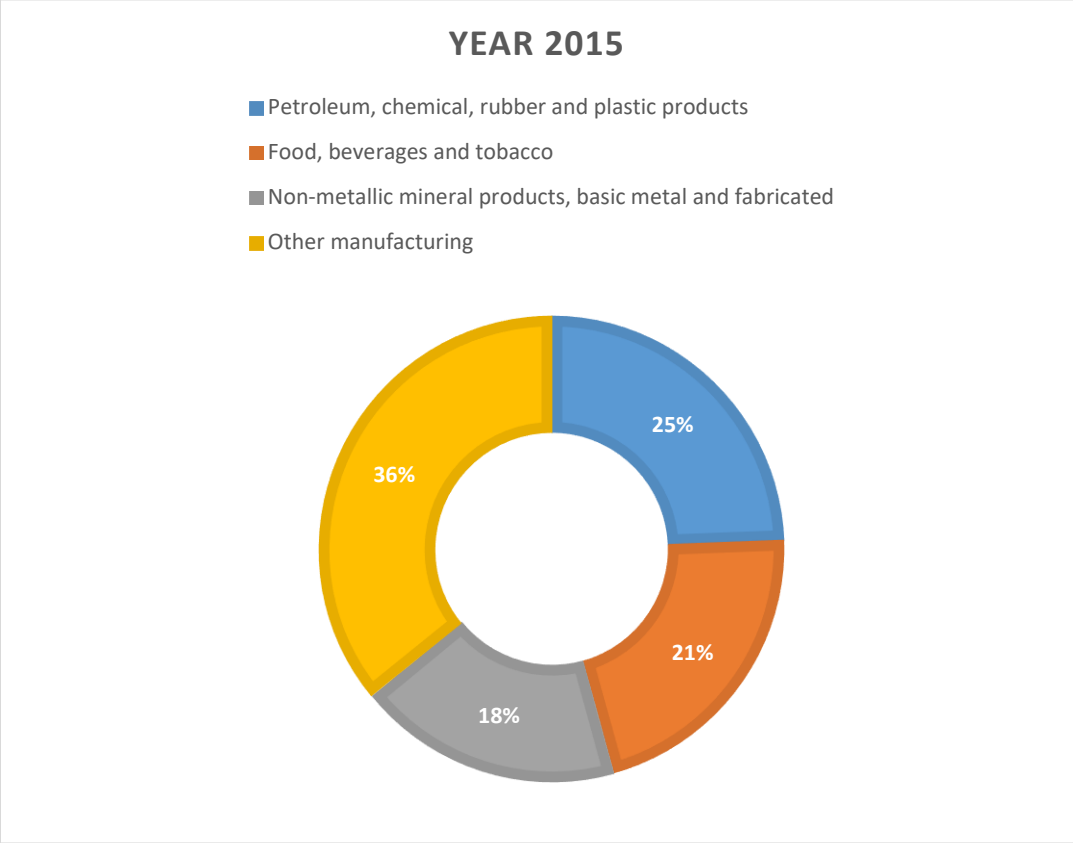

Figure 1.3: The components of value-added of SMEs in Manufacturing Sector (%)
Source: Department of Statistics, Malaysia & SME Corp. Malaysia Annual Report, 2016

1.1.4 Technology Adoption Level among Malaysia SMEs

The usage of internet technology among SMEs in the business operation is increased as compared to the year 2014. As for now, nearly 98% of SMEs are using the computer in their daily operation, 90.1% of SMEs using the internet as well and 78.2% of SMEs using social media as a platform to promote their company (refer figure 1.4). This means that SMEs in Malaysia start to accept and transform to modern business operation method. Increasing adoption of Information and Communications Technology helps SMEs to be innovation and reach resources.

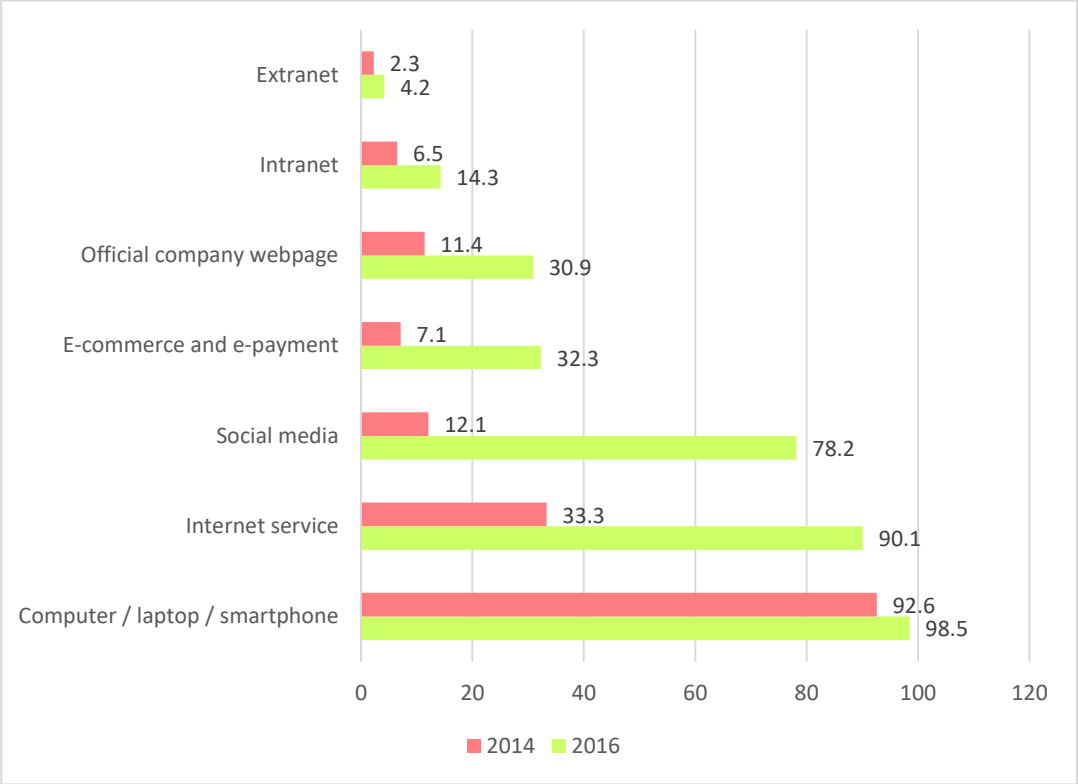

Figure 1.4: The Information and Communications Technology Adoption among SMEs in the Year 2014 and 2016
Source: Department of Statistics, Malaysia & SME Corp. Malaysia Annual Report, 2016

Entrepreneurs have been experiencing a metamorphosis as the assumptions underlying the theory of entrepreneurship is challenged by the wake of the global economic meltdown (Chelliah, Lee, & Sulaiman, 2014). As the competition between the firms is getting tougher in the global market; internationalisation no longer a privilege for a strong capital company because a new and freshly setup company may be able to share a piece of the global market, especially ventures that fully utilise science, technology and engineering to exploit global market niches. However such firms are rarely from the agriculture sector. Innovation, capabilities and competitiveness in the agricultural food processing industries are still not showing enough maturity. Improvement and enhancement of Malaysian SMEs especially in

food processing need further research, to enable SME to be competitive and successful in the global market.

Development of new technology has inspired innovations in all sectors, including modern agriculture, in Asian countries such as Vietnam, China, India, Singapore and Malaysia (Harvie, 2004). In Finland, about 1,900 food companies are micro and small firms, and 15% of the micro and small size firms have a high innovation rate, and they are involved in export activities. They also form the fourth biggest industry in Finland (Hyrylä, 2010).

In the 21st century, the challenges for international business firms have increased significantly. Traditionally, the study of internationalisation had focused on large, well-established firms. However, after globalization and increased internet access, the barriers to trade had significantly reduced, and the networking between global firms had strengthened. These benefits generated a new dynamic economy world and rapid growth in international new ventures was witnessed (Bughin et al., 2011). Technology is always a field that garners interests from researchers all around the world, but agriculture and food processing field may not be as fascinating as the field of technology (Tell et al., 2016). More focus and attention should be provided to the Malaysian food processing SMEs that are willing to step into the global market as this may result in higher global market penetration and increased export sales.

Most impetus has been derived from the growing acceptance of the notion that entrepreneurs are able to rejuvenate organisations, spurs the expansion of business, creates new employment potential and fuels economic growth of a nation. The main challenge for the internationalisation of SMEs is mainly due to cost (Chelliah, Mohamed, & Yusliza, 2010; Johanson & Vahlne, 1977).

1.1.5 The Overview of Food Processing SMEs' Export Market

The export growth of SMEs is increasing as illustrated in table 1.8, suggesting that there is an increasing number of SMEs that are moving to internationalisation. However, the GDP contributed by the agriculture sector has reduced each year. The number of SMEs keep on growing in Malaysia, the number of high-tech products have also increased in the competitive market, which means Malaysia is showing positive economic development (Malaysia SME Corp, 2015). Skills and high technologies are able to reflect how well a country performs in developing innovation. Malaysian companies are establishing and involve slowly in the global market, this result from the increasing number of firms currently involved in the foreign market (Nik Abdullah & Mohd Zain, 2011).

Table 1.8 illustrates the export and import value for food manufacturing industry and overall SMEs across the year 2011 to 2016. In the data provided clearly stated that food manufacturing industry is facing an increasing number of export value where the export value but did not show significant increases across the year.

This also shows that the demand from the export market over our food processing industry still high. Therefore food processing industry can be considered as one of the potential industry that contributes to export performance and able to reduce import dependency.

Table 1.8: *Total export & import value (year 2011-2016)*

	Export & Import Value (RM Million)					
	2011	**2012**	**2013**	**2014**	**2015**	**2016**
Total Export	697'862	702'641	719'992	765'417	777'355	785'935
Total Import	573'626	606'677	648'695	682'937	685'778	698'662
Total Export (Food)	20'555	20'692	22'100	25'647	27'370	30'222
Total Import (Food)	34'492	36'090	38'857	42'643	45'343	46'766
Total Export (beverages and Tobacco)	3'136	3'726	3'884	4'079	4'606	4'907
Total Import (beverages and Tobacco)	3'096	3'780	4'069	4'049	4'547	4'534
Percentage of Food, beverages and Tobacco from total export	3.39%	3.48%	3.61%	3.88%	4.11%	4.47%

Source: Ministry of Agriculture and Agro-based Industries (MOA), 2011-2016

Food as the daily need for human life, without a proper manage or arrangement, will create a crisis in future. As human populations are growing, shortage of food may soon come into concern. Agriculture development and food process technology have served as a long-term solution for food shortages (Texas A&M AgriLife Communications, 2014).

Agriculture product in Malaysia, such as palm oil and rubber used to be the major export material. However, in recent years, the competitiveness of the global market meant that there was no longer the case. Despite that agriculture, still, has potential to bring a more significant growth in the GDP. To gain back the local entrepreneurs' interest to participate in the agriculture sector, the government has implemented the 21st-century villages, by improving the living standards of farmers and introducing new farming technology (Economic Planning Unit, 2015). The results from the government's effort still in progress, with the hope that the efforts could bring out immense change for the agriculture sector (Tell et al., 2016), by improving the growth of the food processing industry. This will positively impact the agriculture sector. As for the past research also found food processing SMEs will encounter issues from internal and external factors, availability tangible and intangible resources, organizational and managerial factors, which affect the growth and development of food processing SMEs (Syed et al., 2011).

1.2 Problem Statement

Manufacturing sector contributes 23% from total GDP one of the highest GDP in Malaysia and agriculture sector contributes 8.9% in terms of the total GDP (Malaysia SME Corp, 2015). The food processing industry has the potential to grow in the export market, but with the average growth of 0.22%, with the low export performance might not able to achieve MATRADE target for SMEs to contribute nearly 17.8% of overall total Malaysia export value. The lack of specific food security policy in Malaysia highlights the importance of the food processing companies (Alam, Siwar, Murad, & Toriman, 2011), which indirectly helps the country in maintaining sufficient food stock. Inconsistent supply of raw agriculture material is affecting the inventory management of food processing companies, lack of skilled and capable employees with low technological processing are also problematic (Ahmed, 2012).

From the year 2010 - 2014, the agriculture sector is the third main contributor in term of GDP, proving the importance of agriculture sector. The agriculture sector is proven with a slow trend of changes within the year 2013 – 2014 having 0% of growth. The food processing export trend is also showing poor growth. The agriculture sector is feeding food processing industry and the declining growth of agriculture sector in term of export value and GDP, will actually giving impact towards food processing companies.

The food industry is one of the key value-added component industry in manufacturing sector among SMEs where it contributes 21.3% of total number of SMEs in the manufacturing sector. The decrease of annual growth in export of food products might cause further decline of the current position of food industry performance.

Low control on the numbers of harvest crops and livestock due to unpredictable weather, require a higher level of control and management in material inventory by food processing companies. The managerial skill and employment knowledge in handling healthy supply chain among food processing companies is critical (Alam et al., 2011; Texas A&M AgriLife Communications, 2014).

Creating a workable model for the food processing industry will directly resolve the reason for the declining growth in the agricultural sector. As food processing industry is a part of the agriculture sector, even though it is difficult to distinguish it from the manufacturing sector. The better performance of the food processing industry will result in better growth in agriculture. Export performance improvement can be determined by food processing SMEs' internal factors. Internal factors can be categories into firm characteristics, management characteristics, labour productivity and innovation. To examine the relationship between internal factors and export performance, this study would like to further investigate the relationship of government support as moderator factor in the firm's export performance.

1.3 Research Question

Based on the fundamental ideas behind this study, together with the background of the study and problem statement, five research questions have been identified:

1. Do firm characteristics have a positive relationship with the export performance of the food processing SMEs?

2. Do management characteristics have a positive relationship with the export performance of the food processing SMEs?

3. Does innovation have a positive relationship with the export performance of the food processing SMEs?

4. Does labour productivity have a positive relationship with the export performance of the food processing SMEs?

5. Does government support moderate the relationship between the firm's characteristics, management characteristics, productivity, innovation and export performance of the food processing SMEs?

1.4 Research Objective

The objective of this research is to investigate factors that contribute to the food processing companies' export performance. To obtain the result, variables linked to the effects will be measured.

The research objectives of this study will be as follows:

1. To determine the relationship between firm characteristics and export performance among food processing SMEs.

2. To determine the relationship between the management characteristics and export performance of the food processing SMEs.

3. To determine the relationship between innovation and export performance of the food processing SMEs.

4. To determine the relationship between labour productivity and export performance of the food processing SMEs.

5. To investigate the moderating effect of government support on the relationship between the firm characteristics, management characteristics, productivity and innovation on the export performance of the food processing SMEs.